

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Woodlands Behavioral Healthcare Network	County Cass
Fiscal Year End September 30, 2006	Opinion Date December 6, 2006	Date Audit Report Submitted to State March 29, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

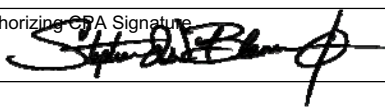
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

**WOODLANDS BEHAVIORIAL
HEALTHCARE NETWORK**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2006



REHMANN ROBSON

Certified Public Accountants

WOODLANDS BEHAVIORIAL HEALTHCARE NETWORK

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

December 6, 2006

To the Woodlands Behavioral
Healthcare Network Board
Cassopolis, Michigan

We have audited the accompanying financial statements of the business-type activities, the major fund, and the remaining fund information, of the Woodlands Behavioral Healthcare Network (the "Authority"), as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Woodlands Behavioral Healthcare Network's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the major fund, and remaining fund information, of the Woodlands Behavioral Healthcare Network, as of September 30, 2006, and the respective changes in financial position and cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2006, on our consideration of Woodlands Behavioral Healthcare Network's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2-5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

WOODLANDS BEHAVIORAL HEALTHCARE NETWORK
Management's Discussion and Analysis
Fiscal Year October 1, 2005 – September 30, 2006

The following Management Discussion and Analysis (MD&A) provides an introduction to the financial statements of the Woodlands Behavioral Healthcare Network (WBHN) for the fiscal year ended September 30, 2006. This presentation is an effort to better inform the reader of the financial statements and presents an analysis and overview of the financial activities and condition of the organization during the past fiscal year.

Woodlands Behavioral Healthcare Network is a community mental health authority established by the Board of Commissioners of Cass County pursuant to the Michigan Mental Health Code to operate, control, and manage an integrated behavioral healthcare system in order to better serve its citizens. The County Board of commissioners appoints member to the Mental Health Board, which governs the authority.

The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements audited by Rehmann Robson for the period ended September 30, 2006. This MD&A contains information on the basic financial statements of the agency together with any required explanation, which would be essential to acquire a full understanding of the data contained therein.

Funding Background

In 1998, the Community Mental Health system went from a fee-for-service system to a capitated arrangement. In such an arrangement, each CMH receives a payment each month for each Medicaid recipient in the county. This payment is designed to cover the cost of providing mental health care to those Medicaid recipients in need of such care. A similar arrangement, using a different formula – primarily historical, provides funding to the CMH system to serve the non-Medicaid residents in the county. Under this arrangement, our revenue does not change when we serve more people or provide more care. It changes only when the number of Medicaid enrollees in the county increases or decreases.

Prior to the switch to a capitated system, for nearly two decades, the CMH system in Michigan received an ever-increasing share of its funding via the federal Medicaid system, on a fee-for-service basis. Therefore, the more services we provided, the more money we received. We received approximately one federal dollar for every state dollar that was spent serving a Medicaid recipient. State funding during this period was not increased. The state funds used to match the federal dollars were those state funds that were already in our budget.

The CMH system took on a number of mental health responsibilities formerly held by the state, including the community placement of former state hospital residents, AIS homes, utilization management of, and payment for, local inpatient psychiatric hospital care. These were the primary sources of revenue growth for the CMH system over the past decades. This constitutes a transfer of responsibility, more than a true increase in revenue. No new state dollars were added to the system during this time, so true revenues remained flat or decreased.

Beginning October 1, 2002, the Michigan Department of Community Health contracted with a designated Prepaid Inpatient Health Plan (PIHP) for Medicaid services within a designated geographic region. Kalamazoo Community Mental Health Services was awarded the contract for the four county region of Kalamazoo, Allegan, Cass and St. Joseph counties. Kalamazoo then entered into a Medicaid sub-contract agreement with each of the CMHSP's. Separate General Fund contracts were issued by the state to each individual Community Mental Health Service Program (CMHSP). The contracting arrangement is expected to remain the same through fiscal year 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to WBHN's basic financial statements. The basic financial statements are comprised of three components: Government-wide financial statements, fund financial statements and notes to the financial statements.

Government-wide/Fund Financial Statements. As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements. These financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. This is done by reporting the Authority's assets and liabilities using the full accrual method of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The *Statement of Net Assets* presents information on all of Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Revenue, Expenses and Changes in Fund Net Assets* presents information showing how the Authority's revenue and expenses changed during the most recent fiscal year. All changes in revenue and expenses are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. In addition, this statement discloses *non-cash* expenditures of depreciation and amortization, which affect the ending book value of capital assets.

The *Statement of Cash Flows* presents information about the source and usage of cash and cash equivalents and divides the information reported into three classifications: operating, financing, and investing. Authority's operations generate and use cash in the normal flow of activity: the collection of revenues and payments to contractors plus the non-cash activity add-backs such as depreciation. Financing activities include borrowing and repayment of long-term debt and purchase of equipment/group homes. Investing includes such items as investment of cash and other long-term assets.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide/fund financial statements. The accompanying notes are an integral part of the financial statements and must be reviewed in conjunction with the information reported on the financial statements to provide a full understanding of Authority's financial situation.

Financial Analysis

The following government-wide statement is included in the discussion with comparative totals for the prior fiscal year.

	<u>FY 05/06</u>	<u>FY 04/05</u>
Assets		
Cash and cash equivalents	\$ 2,121,930	\$ 2,080,617
Accounts receivable	230,150	84,032
Prepaid items	180,977	107,353
Due from other governmental units	-	68,028
Capital assets, net of accumulated depreciation	<u>343,229</u>	<u>226,477</u>
Total assets	<u>2,876,286</u>	<u>2,566,507</u>
Liabilities		
Accounts payable	472,666	294,724
Accrued liabilities	67,844	73,361
Due to other governmental units	266,102	287,250
Unearned revenue	3,861	4,965
Accrued health insurance	-	502,502
Compensated absences	<u>155,268</u>	<u>138,001</u>
Total liabilities	<u>965,741</u>	<u>1,300,803</u>
Net assets		
Invested in capital assets	343,229	226,477
Unrestricted	<u>1,567,316</u>	<u>1,039,227</u>
Total net assets	<u>\$ 1,910,545</u>	<u>\$ 1,265,704</u>

Several significant variances were revealed in this statement. The increase in prepaid items is due to the costs incurred for the Netsmart software that has not been received. The change in the accrued health insurance reflects a restatement for the liability to Internal Service Fund net assets.

A summary of changes in net assets for the fiscal year ended September 30, 2006 is included in this discussion with comparative totals for the prior fiscal year.

	<u>FY 05/06</u>	<u>FY 04/05</u>
Operating revenue:		
Medicaid revenue	\$ 6,228,987	\$ 5,860,279
State and Federal grants	2,609,219	2,608,295
Charges for services	328,052	348,963
Other revenue	<u>496,121</u>	<u>289,687</u>
Total operating revenue	<u>9,662,379</u>	<u>9,107,224</u>
Non-operating revenue:		
County appropriation	195,000	195,000
Interest revenue	<u>93,014</u>	<u>36,765</u>
Total non-operating revenue	<u>288,014</u>	<u>231,765</u>
Total revenue	9,950,393	9,338,989
Operating expenses:		
Health and welfare	<u>9,808,054</u>	<u>9,314,298</u>
Change in net assets	142,339	24,691
Net assets, beginning of year, as restated	<u>1,768,206</u>	<u>1,241,013</u>
Net assets, end of year	<u>\$ 1,910,545</u>	<u>\$ 1,265,704</u>

The significant variance was the restatement of the accrued health insurance from a liability to Internal Service Fund net assets.

Future Financing

Section 462 of the FY 2006 Michigan Department of Community Health (MDCH) appropriation act contains a requirement for a work group to study funding equity issues. This section calls on the MDCH to establish a work group to develop a plan to achieve state general fund equity among all CMHSP's

The MDCH rebased the Medicaid funding beginning in FY 2006. This rebasing effort caused significant swings in Medicaid funding levels for a number of PIHP's. The Michigan Association of Community Mental Health Boards is coordinating an effort to mitigate the impact of losses to some PIHP's which resulted from the new rates. Medicaid funding is scheduled to be rebased again for the FY 2008 year.

**WOODLANDS BEHAVIORAL
HEALTHCARE NETWORK**

Statement of Net Assets

September 30, 2006

	<u>Enterprise Operating Fund</u>	<u>Internal Service</u>	<u>Total Business-type Activities</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,500,512	\$ 621,418	\$ 2,121,930
Accounts receivable	192,350	-	192,350
Accounts receivable-Medicaid	37,800	-	37,800
Prepays	180,977	-	180,977
Total current assets	<u>1,911,639</u>	<u>621,418</u>	<u>2,533,057</u>
Non-current assets:			
Capital assets being depreciated, net	<u>343,229</u>	<u>-</u>	<u>343,229</u>
Total assets	<u>2,254,868</u>	<u>621,418</u>	<u>2,876,286</u>
Liabilities			
Current liabilities:			
Accounts payable	472,666	-	472,666
Accrued liabilities	67,844	-	67,844
Due to State	254,715	-	254,715
Due to PIHP	11,387	-	11,387
Unearned revenue	3,861	-	3,861
Current portion of long-term debt	110,000	-	110,000
Total current liabilities	<u>920,473</u>	<u>-</u>	<u>920,473</u>
Non-current liabilities:			
Long-term debt, net of current portion	<u>45,268</u>	<u>-</u>	<u>45,268</u>
Total liabilities	<u>965,741</u>	<u>-</u>	<u>965,741</u>
Net assets			
Invested in capital assets	343,229	-	343,229
Unrestricted	<u>945,898</u>	<u>621,418</u>	<u>1,567,316</u>
Total net assets	<u><u>\$ 1,289,127</u></u>	<u><u>\$ 621,418</u></u>	<u><u>\$ 1,910,545</u></u>

The accompanying notes are an integral part of these financial statements.

**WOODLANDS BEHAVIORAL
HEALTHCARE NETWORK**

**Statement of Revenue, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2006**

	<u>Enterprise Operating Fund</u>	<u>Internal Service</u>	<u>Eliminations</u>	<u>Total Business-type Activities</u>
Operating revenue				
Medicaid revenue	\$ 6,228,987	\$ -	\$ -	\$ 6,228,987
State and federal grants	2,609,219	-	-	2,609,219
Charges for services	328,052	96,478	(96,478)	328,052
Other revenue	111,316	-	-	111,316
Substance abuse revenue:				
Medicaid revenue	52,195	-	-	52,195
State and federal grants	212,206	-	-	212,206
Charges for services	43,860	-	-	43,860
Other revenue	76,544	-	-	76,544
	<u>9,662,379</u>	<u>96,478</u>	<u>(96,478)</u>	<u>9,662,379</u>
Operating expenses				
Mental health services:				
MI Adult population	3,575,772	-	(37,425)	3,538,347
DD population	4,115,332	-	(18,516)	4,096,816
SED population	631,584	-	(13,379)	618,205
Substance abuse services	504,964	-	(10,021)	494,943
Management and general	1,076,880	-	(17,137)	1,059,743
	<u>9,904,532</u>	<u>-</u>	<u>(96,478)</u>	<u>9,808,054</u>
Operating income (loss)	<u>(242,153)</u>	<u>96,478</u>	<u>-</u>	<u>(145,675)</u>
Non-operating revenue (expenses)				
County appropriation	195,000	-	-	195,000
Interest revenue	70,576	22,438	-	93,014
	<u>265,576</u>	<u>22,438</u>	<u>-</u>	<u>288,014</u>
Total non-operating revenue	<u>265,576</u>	<u>22,438</u>	<u>-</u>	<u>288,014</u>
Change in net assets	23,423	118,916	-	142,339
Net assets, beginning of year, as restated	<u>1,265,704</u>	<u>502,502</u>	<u>-</u>	<u>1,768,206</u>
Net assets, end of year	<u>\$ 1,289,127</u>	<u>\$ 621,418</u>	<u>\$ -</u>	<u>\$ 1,910,545</u>

The accompanying notes are an integral part of these financial statements.

**WOODLANDS BEHAVIORAL
HEALTHCARE NETWORK**
Statement of Cash Flows
For the Year Ended September 30, 2006

	<u>Enterprise Operating Fund</u>	<u>Internal Service</u>
Cash flows from operating activities		
Cash received from customers	\$ 9,778,185	\$ -
Cash received from interfund services	-	96,478
Cash payments to suppliers for goods and services	(6,341,437)	-
Cash payments to employees for services	(3,401,951)	-
	<hr/>	<hr/>
Net cash provided by operating activities	34,797	96,478
Cash flows from capital and related financing activities		
Purchase of capital assets	(182,976)	-
Cash flows from investing activities		
Interest received	<hr/> 70,576	<hr/> 22,438
	<hr/>	<hr/>
Increase (decrease) in cash and cash equivalents	(77,603)	118,916
Cash and cash equivalents, beginning of year	<hr/> 1,578,115	<hr/> 502,502
	<hr/>	<hr/>
Cash and cash equivalents, end of year	<u><u>\$ 1,500,512</u></u>	<u><u>\$ 621,418</u></u>

**WOODLANDS BEHAVIORAL
HEALTHCARE NETWORK**
Statement of Cash Flows (Concluded)
For the Year Ended September 30, 2006

	<u>Enterprise</u> <u>Operating</u> <u>Fund</u>	<u>Internal</u> <u>Service</u>
Reconciliation of operating income to net cash used in operating activities		
Operating income (loss)	\$ (242,153)	\$ 96,478
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation expense	66,224	-
County appropriation	195,000	-
Changes in assets and liabilities:		
Accounts receivable	(108,318)	-
Accounts receivable-Medicaid	30,228	-
Prepays	(73,624)	-
Accounts payable and accrued liabilities	201,079	-
Due to State	(32,535)	-
Unearned revenue	(1,104)	-
Net cash provided by operating activities	<u>\$ 34,797</u>	<u>\$ 96,478</u>

Non-Cash Transactions:

There were no significant non-cash investing or financing activities during the year.

The accompanying notes are an integral part of these financial statements.

WOODLANDS BEHAVIORAL HEALTHCARE NETWORK

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Cass County Community Mental Health Authority (dba Woodlands Behavioral Healthcare Network) (the “Authority” or “Woodlands”), established under Section 205 of the Michigan Mental Health Code, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

Reporting Entity – Woodlands is a Community Mental Health Authority serving the mental health needs of Cass County residents. The Authority is not a component unit of Cass County or any other reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity.

Financial Statements - The basic financial statements report information on all of the activities of the Woodlands Behavioral Healthcare Network.

The operations of Woodlands are accounted for as an Enterprise Fund (a proprietary fund) which is designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Business-type Activities

Enterprise Fund – The enterprise fund is Woodlands’ primary operating fund, and only major fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Internal Service Fund – The Retiree’s Health Insurance Fund accounts for activities which provide health insurance and medical reimbursements to all qualified retirees.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of Woodlands’ operating fund are contract revenues from MDCH and first and third party billings. Operating revenues of the internal service funds are primarily comprised of charges to other funds for risk financing. Operating expenses include the cost of providing mental health and substance abuse services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

WOODLANDS BEHAVIORAL HEALTHCARE NETWORK

NOTES TO FINANCIAL STATEMENTS

Capital Assets - Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment/Computers	3-7
Vehicles	5

Cash and Cash Equivalents – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Receivables – Receivables consist primarily of amounts due from the State of Michigan for Medicaid billings and grant reimbursements under the terms of its full management contract and from other agencies, governments and organizations for services rendered. Amounts receivable under the full management contract are subject to a cost settlement process and, as such, provision has been made by the Authority for adjustments as estimated by management.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Compensated absences – It is the Authority's policy to permit eligible employees to accumulate earned but unused vacation and sick pay benefits. Employees are allowed to accumulate up to 200 hours of vacation time and carry the accumulated time into the future. Amounts accumulated are to be paid to the employee either when the vacation time is actually taken or upon termination of employment.

Employees are allowed to accumulate hours of sick time and carry the accumulated time into the future. Hours accumulated over 360 will be paid to the employee on January 1st of each year at the rate of their hourly pay multiplied by half of the hours accumulated over 360. Hours accumulated from 1 – 360 are to be recognized as an expense when the employee actually uses the sick time. Upon termination of employment, all accumulated sick leave benefits are lost.

Unearned Revenue -- Unearned revenue represents that portion of the current-year MDCH contract amount that may be carried-over to and expended in subsequent fiscal years. Such carryover is generally limited to five percent of the MDCH contract amount.

Medicaid Savings are considered local funds under the contract with MDCH, and may be spent over a period of several years in accordance with a Medicaid Reinvestment Strategy. State General Funds carried over must generally be spent in the following year.

WOODLANDS BEHAVIORAL HEALTHCARE NETWORK

NOTES TO FINANCIAL STATEMENTS

2. CASH AND CASH EQUIVALENTS

Deposits

The Authority's cash and cash equivalents are comprised entirely of deposits with financial institutions.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$2,117,256 of the Authority's bank balance of \$2,317,256 was exposed to credit risk because it was uninsured and uncollateralized.

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type Activities				
Capital assets, being depreciated:				
Equipment	\$ 221,224	\$ 99,040	\$ -	\$ 320,264
Computers	287,735	64,006	-	351,741
Vehicles	143,208	19,930	-	163,138
Total capital assets being depreciated	<u>652,167</u>	<u>182,976</u>	<u>-</u>	<u>835,143</u>
Less accumulated depreciation for:				
Equipment	(149,430)	(12,980)	-	(162,410)
Computers	(166,272)	(38,584)	-	(204,856)
Vehicles	(109,988)	(14,660)	-	(124,648)
Total accumulated depreciation	<u>(425,690)</u>	<u>(66,224)</u>	<u>-</u>	<u>(491,914)</u>
Capital assets, net	<u>\$ 226,477</u>	<u>\$ 116,752</u>	<u>\$ -</u>	<u>\$ 343,229</u>

4. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 138,001	\$ 109,428	\$ 110,088	\$ 137,341	\$ 110,000
Severance payable	11,350	6,577	-	17,927	-
	<u>\$ 149,351</u>	<u>\$ 116,005</u>	<u>\$ 110,088</u>	<u>\$ 155,268</u>	<u>\$ 110,000</u>

WOODLANDS BEHAVIORAL HEALTHCARE NETWORK

NOTES TO FINANCIAL STATEMENTS

5. LEASES

The Authority has entered into various operating leases for the use of real and personal property. The following is a schedule of future minimum lease payments:

<u>Year Ending September 30,</u>	<u>Amount</u>
2007	\$ 207,937
2008	207,937
2009	159,337
2010	50,737
2011	<u>26,536</u>
Total minimum payments due	<u>\$ 652,484</u>

6. DEFINED CONTRIBUTION RETIREMENT

The Authority sponsors and contributes to the Employees' Money Purchase Pension Plan, which is a single-employer defined contribution pension plan. Administration of the plan is funded by the Operating Fund.

The Authority contributes 6.2% of all non-union personnel's salary to the plan. Employees are required to contribute 6.2% of their salary into this plan. The contributions to the plan are made in lieu of federal social security contributions. The Authority also contributes an additional 5% to the plan above the federal social security replacement contribution. Under this plan, employees are 100% vested in their account at inception. Total contributions made by the Authority and employees for the year ended September 30, 2006, were \$378,766 and \$232,591, respectively. Employees of the Authority not eligible to participate in this plan are covered by the federal social security system.

7. OTHER POSTEMPLOYMENT BENEFITS

The Authority provides medical, dental and vision benefits for retirees and their beneficiaries. Participants become eligible to receive benefits at age 59-½ with five years of service. Plan provisions are established and may be amended by the Board. The Authority has established an internal service fund to account for funds set aside for future benefits. No benefits were paid in fiscal year 2006.

8. CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, the Authority is subject to periodic audits of its agreements. Such audits could lead to questioned costs and/or requests for reimbursement to grantor or regulatory agencies.

WOODLANDS BEHAVIORAL HEALTHCARE NETWORK

NOTES TO FINANCIAL STATEMENTS

As is the case with other entities, the Authority faces exposure from potential claims and legal proceedings involving environmental and other matters. No such claims or proceedings have been asserted as of September 30, 2006.

9. COMMITMENTS

During the year ended September 30, 2006, the Authority entered into a contract with Netsmart to purchase, install and provide support for software programs in the amount of \$219,667. The Authority remains obligated for the full amount of the contract at year end.

10. RESTATEMENT

During the year ended September 30, 2006, the Authority elected to modify its reporting structure to report all funds as proprietary funds. Beginning net assets of the enterprise fund were equal to the ending net assets of governmental activities in the prior year financial statements.

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INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

December 6, 2006

To the Woodlands Behavioral
Healthcare Network Board
Cassopolis, Michigan

We have audited the financial statements of the business-type activities, the major fund, and the remaining fund information of the Woodlands Behavioral Healthcare Network (the "Authority"), as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents and have issued our report thereon dated December 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



December 6, 2006

To the Board of Directors of the
Woodlands Behavioral Healthcare Network
Cassopolis, Michigan

We have audited the financial statements of Woodlands Behavioral Healthcare Network for the year ended September 30, 2006, and have issued our report thereon dated December 6, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated November 20, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Woodlands Behavioral Healthcare Network. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Woodlands Behavioral Healthcare Network's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Woodlands Behavioral Healthcare Network are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Woodlands Behavioral Healthcare Network during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Woodlands Behavioral Healthcare Network's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Woodlands Behavioral Healthcare Network, either individually or in the aggregate, indicate matters that could have a significant effect on Woodlands Behavioral Healthcare Network's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Woodlands Behavioral Healthcare Network's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Woodlands Behavioral Healthcare Network

Comments and Recommendations

For the Year Ended September 30, 2006

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated December 6, 2006 on the financial statements of Woodlands Behavioral Healthcare Network.

Journal Entries

As part of our audit, we examined various journal entries. We noted that journal entries were not printed, signed, and filed; therefore it was impossible to examine documentation regarding who prepared or approved these entries. Similarly, because there is no filing system in place, it was not possible for us to view adequate documentation supporting the entries.

It is our recommendation that all journal entries be filed in sequential order and be initialed evidencing that they were reviewed and approved by an employee independent of the preparer. In addition, documentation supporting the entry should be attached when filed. In this way, all transactions will be supported with documentary evidence sufficient for an outside party with no previous knowledge of the Authority's operations to be able to clearly identify the nature, purpose, and authorization for each transaction.

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